

Message Text

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66 60
ACTION EB-04

INFO OCT-01 SS-04 NSC-04 NSCE-00 TRSE-00 FRB-03 INR-01

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R 031646 Z JUL 73

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2334
INFO AMEMBASSY BONN
USMISSION EC BRUSSELS
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

C O N F I D E N T I A L LONDON 07641

LIMDIS GREENBACK

PASS TREASURY FOR F. L. WIDMAN; FRB

E. O. 11652: XGDS
TAGS: EFIN, UK
SUBJECT: RESULTS OF EC FINANCE MINISTERS MEETING AND
OTHER RELATED SUBJECTS

1. A. UK SOURCE TELLS US THAT THERE WAS NO EFFECTIVE
PRIOR CONSULTATION BETWEEN GERMANY AND EC PARTNERS ON
DM REVALUATION. ACCORDING SOURCE, FINANCE MINISTER

SCHMIDT DID NOT ATTEND EC FINANCE MINISTERS MEETING AND
UK BELIEVES HEAD OF CENTRAL BANK KLAUSEN WOULD HAVE
PREFERRED INDEPENDENT DM FLOAT. SUCH CORRIDOR DIS-
CUSSIONS AS THERE WERE AT EC FINANCE MINISTERS MEETING
DID NOT CONSIDER THAT DM WAS IN ANY WAY IN FUNDAMENTAL
DISEQUILIBRIUM OR UNDervalued. SINCE MARKET PUSHED UP
THE DM RATE AND OTHER CURRENCIES IN SNAKE, GERMAN DE-
CISION WAS PROBABLY CORRECT, BUT COULD BE REVERSED.

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1. B. PRESS HAVE REPORTED THE STORY INACCURATELY ASSUMING THAT THERE WAS EXTENSIVE PRIOR CONSULTATION. UK FOUGHT OFF QUOTE RIDICULOUS PROPOSALS UNQUOTE THAT EC SHOULD HAVE HELD MEETINGS LAST WEEK TO SANCTIFY THE REVALUATION, WHICH WOULD HAVE SHOWN HOW LITTLE PRIOR CONSULTATION ACTUALLY TOOK PLACE.

2. THERE WILL BE A MEETING IN ROME LATER THIS WEEK WITH DELEGATES FROM EC CAPITOLS TO FORMALLY REVIEW AND APPROVE ITALIAN CREDIT LINE FROM EUROPEAN MONETARY COOPERATION FUND (ECMF).

3. THERE WAS CONSIDERABLE DUTCH AND GERMAN OPPOSITION TO EC PROPOSAL TO GRANT ECMF ADDITIONAL CREDIT FACILITIES. MANY MEMBERS ARE RELUCTANT TO POOL ANY RESERVES OTHER THAN DOLLARS. UK IS NOT OPTIMISTIC ON EITHER COUNT.

4. BASED ON MOST RECENT INTERNAL PROJECTIONS, UK CONSIDERS THAT CURRENT ACCOUNT WILL BE IN BALANCE BY 1975. UK ANTICIPATES THAT J CURVE EFFECTS OF JUNE 1972 FLOAT WILL BE SPREAD OVER FIVE YEAR PERIOD, WITH MOST FAVORABLE IMPORT EFFECTS BEING FELT AFTER 18-24 MONTHS, MOST FAVORABLE EXPORT EFFECTS COMING AFTER 30-36 MONTHS.

5. AT RECENT EC MEETINGS THERE HAS BEEN CONSIDERABLE PREOCCUPATION ABOUT SIZE OF EXPECTED US TRADE SURPLUS IN 1976.

ANNENBERG

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*** Current Handling Restrictions *** LIMDIS

*** Current Classification *** CONFIDENTIAL

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